

S E C R E T SECTION 01 OF 06 NASSAU 001601

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E.O. 12958: DECL: 08/29/2025
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SUBJECT: CHINESE ACTIVITIES IN THE BAHAMAS

REF: SECSTATE 138041

Classified By: Charge d'Affaires Brent Hardt, Reasons 1.4(b) and (d)

¶11. (C) SUMMARY: The Chinese presence in The Bahamas has been steadily expanding since the two countries established diplomatic relations in 1997. The PRC and the GCOB have exchanged high-level delegations to discuss the full range of international political issues, explore economic opportunities and develop cultural programs. Prime Minister Perry Christie paid an official visit to Beijing in August 2004, when the Chinese government promised \$30 million to build a 15,000-seat national sports stadium in The Bahamas. Hong Kong-based shipping giant Hutchison Whampoa has substantial holdings on the island of Grand Bahama, including Freeport Container Port, and has reportedly invested \$1 billion in The Bahamas in the last ten years. More investment is planned. The Bahamian press gives generally positive coverage to China and interprets the growing China-Bahamas relationship as a sign of The Bahamas' growing international engagement. END SUMMARY.

Investment: China's Presence on Grand Bahama

¶12. (C) According to the Foreign Ministry, current PRC investment in The Bahamas exceeds \$1 billion. Existing and planned investments focus heavily on the shipping industry in Grand Bahama, particularly the holdings of Hong Kong-based shipping giant Hutchison Whampoa. The PRC's investment arm, China International Trust and Investment Corporation (CITIC), has made multiple visits to The Bahamas and plans to build a logistics center here to provide Chinese investors with financial and regulatory assistance.

¶13. (C) Key Chinese direct investments in The Bahamas, present and planned, include:

-- Hutchison Whampoa's subsidiary Hutchison Port Holdings owns 50 percent of Freeport Harbour Company, the Freeport Container Port, the Grand Bahama International Airport Company, and the Lucayan Harbour Cruise Facilities, among other investments. The other 50 percent of those enterprises is owned by the Grand Bahama Port Authority, the quasi-governmental entity that oversees the free trade zone. Hutchison launched its development and expansion in Freeport in 1994; the total value of its current holdings is estimated to exceed \$1 billion. Freeport is the closest offshore port to the east coast of the U.S.

--A CITIC subsidiary, CITIC Technologies, Inc., has announced plans to build a distribution center in Freeport for its electronic goods.

--The China Ocean Shipping Company (COSCO) is owned by the PRC and is one of the world's largest shipping companies. COSCO has proposed expanding the dry dock ship repair facilities in Freeport. The GCOB and COSCO are in negotiations for the acquisition of the property for the dry-dock facility.

--According to the Foreign Ministry, COSCO has at least three of its ships registered under the Bahamian flag, but has formed a ship leasing company and plans to locally register an additional 10 to 40 ships.

--Chinese company Jin De Li (the Jindeli Group) is in discussion with the GCOB to establish a subsidiary in The Bahamas to build a souvenir and handicraft factory. Company representatives have visited The Bahamas, and formal proposals are under consideration.

¶14. (C) Portfolio investment. Under Bahamian law, foreign entities may not own the securities listed on the small Bahamian stock market. Post is unaware of any Chinese investments outside of productive sectors.

¶15. (C) Increase in Investment Support. In addition to the planned Logistics Center, the PRC has given at least two small grants (\$250,000) to the GCOB for various technical, agricultural, and handicraft projects at the request of the GCOB. The PRC Ministry of Commerce maintains an "Economic

and Commercial Counselor" for The Bahamas "to formulate and implement specific policies and reform plans of foreign trade and investment, and to work out and execute mid-term and long-term import & export planning and development strategies." The Counselor's website is <http://bf2.mofcom.gov.cn>. The PRC is also a member of the Caribbean Development Bank (CDB), subscribing 5.77% of CDB total ordinary capital. The PRC has contributed \$28 million to the Special Development Fund, which provides concessional loans to member countries.

Chinese Assistance: Stadium Diplomacy

16. (C) During an August 2004 state visit to Beijing by Prime Minister Christie, the PRC pledged \$30 million to build a 15,000-seat national sports stadium in Nassau. A Chinese delegation visited Nassau in April 2005 to sign the final contracts and to present its design proposal. Construction is expected to begin in early 2006.

17. (C) The Chinese Embassy, one of only four foreign embassies in Nassau, conveyed the PRC's cash donation of \$1 million to the Bahamian Government in 2004 to aid in the recovery from Hurricanes Frances and Jeanne.

High-Level Political Exchanges

18. (C) There is consistent contact between Bahamian and Chinese Officials, who maintain active dialog on the full range of international issues. Following is a list of bilateral meetings with known areas of discussion since 2003:

-- In January 2003, Vice Premier Wu Yi visited The Bahamas as part of a 30 member trade and economic delegation, meeting with Governor General Dumont, PM Christie, and Deputy PM Pratt. During the visit, the PRC presented the GCOB with a \$250,000 grant for technical, agricultural and handicraft projects and thanked the GCOB for its support of the One China policy. The GCOB said the talks involved international issues and the pursuit of additional PRC investment in The Bahamas, specifically noting discussions regarding "peace and security on the Korean peninsula." During the visit, The Bahamas sought the PRC's support for its WTO accession.

-- In April 2003, Vice-Minister of Communications Hong Shanxiang visited The Bahamas. During the visit, the countries signed an ocean shipping agreement in which The Bahamas agreed to allow Chinese shipbuilders to join the Bahamas ship registry. Bahamian officials refused to divulge additional information about the visits, saying only that discussions involved official Bahamian government business.

-- In August 2003, FM Mitchell and Minister of Transportation Hanna-Martin traveled to Beijing. The PRC pledged to support The Bahamas WTO accession and The Bahamas agreed to support the One China policy. The PRC and the GCOB also signed a cultural cooperation agreement. Minister Martin christened the first Chinese-built boat to join the Bahamas register under the ocean shipping agreement.

-- During an October 2003 trip to the PRC, FM Mitchell reached agreement for a new Chinese embassy complex on prime ocean-front property east of downtown Nassau. The new embassy, if constructed as planned, will be the most prominent and visible embassy in The Bahamas.

-- A PRC delegation led by Vice-Minister of Commerce Xiaoqi visited The Bahamas in April 2004 to discuss the possible exchange of PRC support for The Bahamas WTO accession in return for GCOB support for three WTO concessions for the PRC: transition products specific safeguard mechanisms, anti-dumping investigation method applied to non-economies, and social restrictive measures on textile trade.

-- In August 2004, PM Christie, FM Mitchell and a delegation of cabinet members and other officials visited the PRC and met with President Hu Jintao, Premier Wen Jiabao, Foreign Minister Li Zhaoxing, Chinese National People's Committee Chair Wu Bangguo and business officials. Wen Jiabao expressed his appreciation to the GCOB for adhering to the One China policy. The PRC also agreed to support the GCOB in WTO negotiations in return for the GCOB's support of WTO concessions for the PRC. The visit resulted in promises to build a \$30 million stadium in The Bahamas, and promises of investment by CITIC, COSCO and Jin De Li. During the visit, the GCOB agreed to close its consulate in Hong Kong and open an embassy in Beijing, and promised to hold "unswervingly" to the One China policy. The PRC and the GCOB signed three agreements to promote economic and cultural cooperation: the stadium agreement, an agreement broadening maritime cooperation and an agreement on technical cooperation.

-- In February 2005, the PRC hosted the China-Caribbean Economic & Trade Cooperation forum in Kingston. At the forum, the GCOB signed a "Guiding Framework for Trade Cooperation" and a Memorandum of Understanding designating The Bahamas as an approved destination for Chinese tourists.

Attitudes toward Chinese Presence

19. (C) The GCOB's attitudes are extremely positive towards the PRC. As one example, Foreign Minister Mitchell said that expanding ties with China would help "urge The Bahamas away from chronic dependence on the former colonial powers and bring her into an interdependent relationship with new and emerging powers." Similarly, PM Christie has stated that, "China's development will make the world more balanced." The official GCOB website says that the GCOB "cherishes" its relationship with the PRC.

10. (C) The Bahamian population is broadly favorable toward increased cultural ties between the PRC and The Bahamas. Newspaper articles, scholarship competitions and other PRC efforts have been well received. Specific cultural and public outreach programs include athletic exchanges, dance and choir group visits, and the award of scholarships to Bahamian students. At the time of Prime Minister Christie's August 2004 visit to China, a Nassau newspaper ran a series of articles on the history and culture of China and held an essay competition sponsored by the Chinese Embassy on the topic "What a Small Country Like the Bahamas Can Learn From China."

Military-to-Military Contacts and Security Concerns

11. (S) There is no known military contact or assistance between the PRC and the small Royal Bahamas Defense Force, but a military presence is possible upon completion of the large new PRC embassy and potential increase in embassy staffing. Other security concerns include possible intelligence activities based in Freeport as the PRC establishes a foothold approximately 55 miles from Florida. CITIC and Ka-Shing's planned expansion on Grand Bahama, combined with involvement in high-tech communications equipment, create concern regarding monitoring of US military training by Chinese intelligence from The Bahamas. Additional security concerns arise from illegal migration and/or trafficking of Chinese nationals through The Bahamas. Illegal migration is currently under investigation by U.S. Immigration and Customs Enforcement.

Taiwan

12. (C) The Bahamas adheres to the One China policy and has drawn down its contacts with Taiwan since recognizing the PRC in 1997. At the same time, Bahamian officials also publicly emphasize that The Bahamas does not support the use of force against Taiwan.

Trade and Environment

13. (C) Bahamian Imports from China. According to the PRC General Administration of Customs and UN Commodity Trade Statistics (UN Comtrade), the Bahamas is the PRC's second largest trading partner in the English-speaking Caribbean. Bahamian imports of PRC goods totaled \$62.86 million in 2002, \$121.71 million in 2003 and \$98.68 million in 2004. The chief imports are vessels, clothing, hats, shoes, toys and light industry products, with vessels typically more than 70 percent of total imports. Imports from Hong Kong were an additional \$2.86 million in 2002, \$1.86 million in 2003 and \$1.8 million in 2004. Imported items from Hong Kong include pearls, textiles, toys and plastics.

Bahamian Imports from China by Year 2002-2004

2002	Ships, boats	\$49,107,720	78.1%
	Mineral fuels, oils	\$5,377,899	8.6%
	Iron or steel	\$3,301,632	5.3%
	Other textiles	\$1,315,319	2.5%
	Machinery/appliances	\$829,312	1.6%
	Other	\$2,930,310	5.5%
	2002 TOTAL	\$52,862,192	100.0%
2003	Ships, boats	\$78,589,760	64.6%
	Mineral fuels, oils	\$31,027,524	25.5%
	Iron or steel	\$6,929,573	5.7%

Other textiles	\$1,413,126	1.2%
Apparel	\$482,126	0.4%
Other commodities	\$3,275,460	2.7%
2003 TOTAL	\$121,717,888	100.0%

2004	Ships, boats	\$71,603,283	72.6%
	Iron or steel	\$8,210,881	8.3%
	Apparel	\$6,430,706	6.5%
	Mineral fuels, oils	\$5,974,167	6.1%
	Other textiles	\$1,915,557	1.9%
	Other commodities	\$4,547,919	4.6%
	2004 TOTAL	\$98,682,513	100.0%

¶14. (C) Bahamian Exports to China. UN Comtrade reports Bahamian exports to the PRC of \$58,157 in 2002, \$781,236 in 2003 and \$694,838 in 2004. While exports are almost entirely in nickel, iron and steel, The Bahamas does not have the natural resources to satisfy the PRC's demand for energy, timber, steel, cement or other key industrial inputs. Exports to Hong Kong were insignificant.

¶15. (C) Low Potential Environmental Degradation Due to Low Volume. There is no known environmental degradation as a result of Bahamian exports to the PRC. Post is unaware of any Chinese efforts to address any environmental concerns.

¶16. (C) Post is unaware of any effort to create a preferential trade arrangement.

The Bahamas Seeks Self-Interest and Non-U.S. Partner

¶17. (C) COMMENT: The China-Bahamas relationship fits within the broader regional pattern of expanding Chinese activity and success in its effort to supplant previous ties with Taiwan in much of the Caribbean. However, the substantial Chinese shipping and port presence gives The Bahamas relationship an added strategic and economic importance. Planned expansion of the PRC embassy, the new national stadium and additional investment on Grand Bahama will help continue to strengthen the relationship. The GCOB will continue to seek access to Chinese foreign currency reserves, lay a foundation for future Chinese tourism, and attempt to diversify an economy almost completely dependent upon the U.S. Despite claims to the contrary, PRC goals in The Bahamas are unlikely to be primarily economic -- the Bahamian market is too small and the natural resources too few. Closer ties to The Bahamas will provide the PRC a dominant shipping and cargo foothold close to the U.S., and potential international support in a region of growing Chinese influence. END COMMENT.

HARDT